

WHICH CHINESE STOCKS ARE ELIGIBLE IN YOUR INDEX?

Tripp Zimmerman — Director, Research
09/08/2015

On June 9, 2015, MSCI announced that it was not ready to include Chinese A-shares in their global indexes. In that announcement the company voiced a series of concerns that need to be addressed before inclusion and a roadmap of how it plans to include these shares. Part of that roadmap toward full adoption includes opening up MSCI's indexes to Chinese companies that are listed in overseas markets. MSCI will potentially include 17 overseas listed stocks between November 2015 and May 2016, which they estimate to represent 12.9% of the eligible Chinese market cap.¹ WisdomTree has also been monitoring the continued openness of the Chinese A-share market to foreign investors for potential inclusion in the [WisdomTree China ex-State-Owned Enterprises Index \(CHXSOE\)](#) Unlike MSCI, WisdomTree has already allowed overseas Chinese equities for inclusion in CHXSOE as well as the [WisdomTree Emerging Markets Consumer Growth Index \(WTEMCG\)](#) To WisdomTree, the traditional Hong Kong-listed [Chinese market](#) is saturated with the large [state-owned](#) Chinese companies, particularly in the Financials, Energy and Telecom sectors. This is noticeable when we examine the current [MSCI China Index \(MXCN\)](#) which has over 60% weight in those three sectors and approximately 70% weight in companies we would consider state owned.² Although the Chinese state-owned Financials are some of the lowest-priced stocks globally, there is a demand for exposure to the Chinese private sector, which is why WisdomTree decided to include these stocks in select Indexes focused on the [emerging market](#) consumer. Over the past few years, we have witnessed Chinese companies decide to list their shares on the U.S. market, which we believe reflects an effort to more easily access global capital. One noticeable similarity between most of the companies is that they tend to be a part of the Information Technology or Consumer Discretionary sector and their business is focused on the emerging Chinese consumer. Below, we list the 20 largest Chinese companies that are listed on a U.S. stock exchange and their respective weights in CHXSOE and MXCN. **Twenty Largest Chinese Companies Listed in U.S.**

Ticker	Name	Sector	WisdomTree China ex-State-Owned Enterprises	MSCI China
BABA	Alibaba Group Holding Ltd	Information Technology	7.14%	N/A
BIDU	Baidu Inc	Information Technology	6.28%	N/A
JD	JD.com Inc	Consumer Discretionary	4.26%	N/A
NTESS	NetEase Inc	Information Technology	2.36%	N/A
VIPS	Vipshop Holdings Ltd	Consumer Discretionary	2.06%	N/A
CTRP	Ctrip.com International Ltd	Consumer Discretionary	3.29%	N/A
QIHU	Qihoo 360 Technology Co Ltd	Information Technology	1.09%	N/A
WUBA	58.com Inc	Information Technology	N/A	N/A
QUNR	Qunar Cayman Islands Ltd	Consumer Discretionary	N/A	N/A
ATHM	Autohome Inc	Information Technology	N/A	N/A
CMCM	Cheetah Mobile Inc	Information Technology	N/A	N/A
YOKU	Youku Tudou Inc	Information Technology	0.82%	N/A
EDU	New Oriental Education & Technology Group Inc	Consumer Discretionary	0.79%	N/A
JIDG	Joymain International Development Group Inc	Health Care	N/A	N/A
MR	Mindray Medical International Ltd	Health Care	0.99%	N/A
YY	YY Inc	Information Technology	0.40%	N/A
CBPO	China Biologic Products Inc	Health Care	N/A	N/A
MOMO	Momo Inc	Information Technology	N/A	N/A
WX	WuXi PharmaTech Cayman Inc	Health Care	1.40%	N/A
WB	Weibo Corp	Information Technology	N/A	N/A
	Sum		30.89%	0.00%

Sources: WisdomTree, Bloomberg, as of 7/31/15. Holdings are subject to change.

• MSCI China Under-weight

Information Technology: By not including these U.S.-listed Chinese securities, MXCN is under-weight Information Technology compared to CHXSOE, with 13.8% exposure, compared to 31.7%. The largest company MXCN is excluding is

Alibaba, an Internet-based e-commerce business considered the Amazon and eBay of China, but with (currently) higher revenues. Another is Baidu, a Chinese search engine often thought of as the Google of China. Although MXCN will be adding weight to the Information Technology sector, we expect MXCN to remain under-weight compared to CHXSOE and heavily invested in the many state-owned companies that still dominate China's market. One could potentially expect volume and buying pressure to pick up in many of these names as we get closer to November.³ As these securities are added to various MSCI indexes, many [active managers](#) and other investment vehicles that track these indexes should be inclined to also purchase these securities. It is difficult to determine the exact dollar amount that will flow into these securities, but we believe it will be noticeable. ¹Source: MSCI, "Consultation on China A-Shares Index Inclusion Roadmap", June 2015.

²Sources: WisdomTree, Bloomberg, as of 7/31/15.³MSCI will potentially include 17 overseas-listed stocks between November 2015 and May 2016, so November could mark the beginning of increased activity in these names.

Important Risks Related to this Article

Investments in emerging, offshore or frontier markets are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation and intervention or political developments.

Investments focused in China increase the impact of events and developments associated with the region, which can adversely affect performance.

Investments focusing on certain sectors and/or smaller companies increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Kara Marciscano, Jianing Wu and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

DEFINITIONS

A-share : shares traded on the Shanghai and Shenzhen stock exchanges. This is contrast to Renminbi B shares which are owned by foreigners who cannot purchase A-shares due to Chinese government restrictions.

WisdomTree China ex-State-Owned Enterprises Index : Measures the performance of Chinese stocks that are not state-owned enterprises. State-owned enterprises are defined as government ownership of more than 20% of outstanding shares of companies.

MSCI China Index : A free float-adjusted, market capitalization-weighted equity index designed to measure the performance of the Chinese equity market.

Emerging market : Characterized by greater market access and less potential for operational risks when compared to frontier markets, which leads to a larger base of potentially eligible investors.

Active manager : Portfolio managers who run funds that attempt to outperform the market by selecting those securities they believe to be the best.